

**“Procedure of Credit Rating:
A Study on WASO Credit Rating Company BD Ltd”**



INTERNSHIP REPORT ON

“Procedure of Credit Rating”-

A Study on WASO Credit Rating Company (BD). Ltd

Submitted To:

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Date of Submission: December 20, 2015

Letter of Transmittal

December 20, 2015

Hasan Maksud Chowdhury

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BRAC Business School
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Subject: Submission of Internship Report.

Dear Sir,

I am very glad to submit my internship report on “Procedures of Credit Rating- A study on WASO Credit Rating Company (BD) Ltd. This report is an outcome of my internship program at the company which was of 3 months. It gives me immense pleasure to complete my Internship successfully and submit this report on the experiences that I have gathered during that period.

Working with such an interesting topic has given me the opportunity to experience business operations of different sectors of Bangladesh through visiting places. The report will try to give a clear picture of comparison of limited theoretical knowledge and mostly application of such knowledge base.

It would be very kind of you to examine my report work and enlighten me with further suggestions to enhance my clarification.

Sincerely Yours,

Md. Nahidul Hasan

ID: 13364014
BRAC Business School
BRAC University

ACKNOWLEDGEMENT

At the very beginning I would like to take the opportunity to thank the almighty Allah because without Allah's blessings this journey would never have been accomplished.

To follow, I would sincerely like to acknowledge my honorable faculty, Hasan Maksud Chowdhury for his tremendous support, outstanding guidance and incredible supervision during my internship period. I am really very grateful to his immense co-operation and assistance.

I would like to personally thank my family members who have helped me to get out of severe depression and supported me throughout at all my bad times.

I would also like to thank the exceptionally proficient and competent working partners I got the opportunity to have worked with for taking the time to share their knowledge and expertise, being most responsive to my requests and making me feel extremely good about work. Especially I am grateful to Mr. Nafis Iftekhar, AVP, from whom I have learned a lot.

I would also like to thank BRAC University and BRAC Business School for providing me with this incredible opportunity to learn and fight in the real world.

Letter of Authorization

This is to certify that Md. Nahidul Hasan, Student of Master of Business Administration (MBA) under school of Business, BRAC University, has successfully completed his assigned internship report on “Procedure of credit rating” at the WASO Credit Rating Company Bangladesh Limited.

He has placed in the WASO Credit Rating Company Bangladesh Limited which is one of the most glorious rating agency in Bangladesh.

The MBA internship report, he has submitted on the topic, is up to mark in the terms of quality.

I wish him every success in life.

Hasan Maksud Chowdhury
Assistant Professor
BRAC Business School
BRAC University

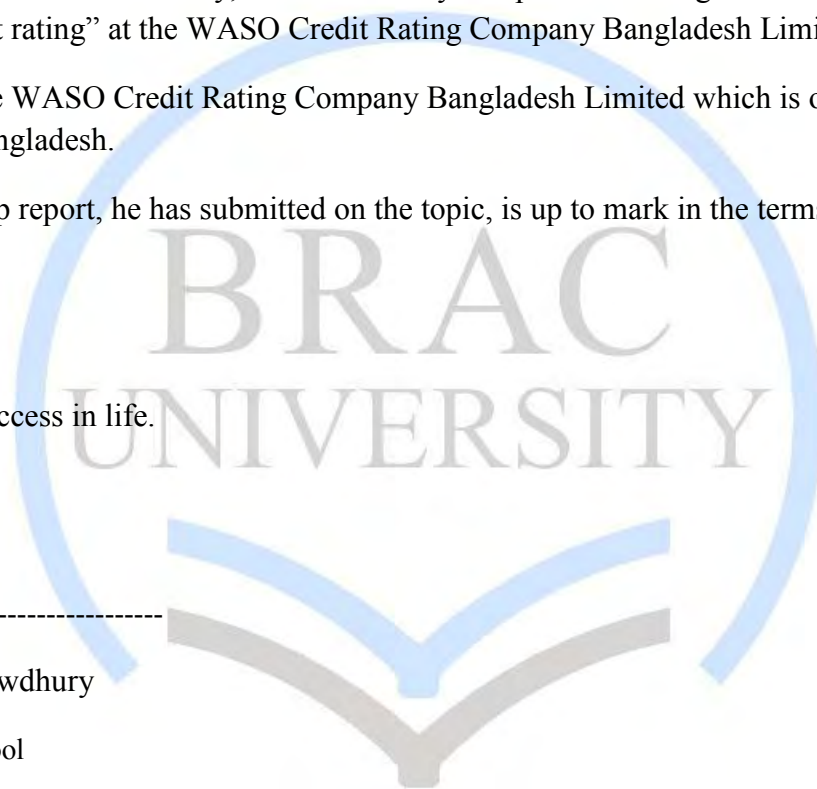


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List of Abbreviations

BB – Bangladesh Bank

BSEC – Bangladesh Securities and Exchange Commission

CRA – Credit Rating Agencies

WCRCL – WASO Credit Rating Company (BD) Limited

CRISL – Credit Rating and Information Services Limited

CRAB – Credit Rating Agency of Bangladesh

ECRL – Emerging Credit Rating Limited

NCRL – National Credit Rating Limited

ARCRSL- Argus Credit Rating Services Limited.



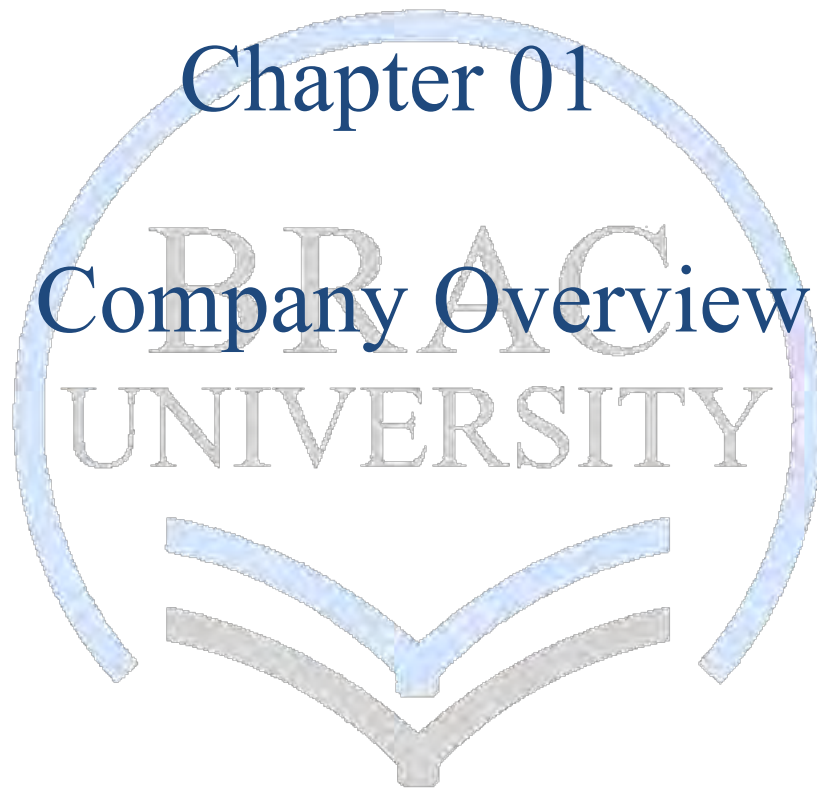
Executive Summary

This report has been prepared as a requirement of the internship program under the Master of Business Administration of BRAC University. This internship program was a tremendous experience which gave me the opportunity to work with some of the knowledgeable employees of WASO Credit Rating Company. My internship commenced from September 15, 2015 to December 15, 2015 which was an outstanding journey that provided me the chance to work in the Operation unit under Operations Department.

My topic is “Procedures of Credit Rating” A Study on WASO Credit Rating Company (BD) Ltd. To work with this topic I had to go through a lot of office documents and thoroughly understand what actually credit rating is and what the necessary factors are for the credit rating tasks.

The report starts with the background of the company where I have worked. The background includes overview, Service offerings, Operational network diagram and company’s vision for the future and missions. Then I got the pleasure to write about my internship experiences. I could showcase my nature and responsibilities of the job along with critical observations and recommendations. Finally I have demonstrated what credit rating actually is along with its branches and different scopes in theory and how a Credit Rating Agency like WASO Credit Rating Company (BD) Ltd operates with a credit rating task

Finally some very important recommendation is being given along with a conclusion of this unforgettable journey.



1.1 Company Overview

WASO Credit Rating Company (BD) Ltd. (“WCRCL”) was incorporated as a public limited company under the Office of the Registrar of Joint Stock Companies and Firms in July of 2009. With the license from the Securities & Exchange Commission (SEC) of Bangladesh to operate as a credit rating company, WCRCL has officially started its journey on 15th February, 2012. It has also been recognized as an External Credit Assessment Institution (ECAI) by Central Bank of Bangladesh in October of 2012.

WCRCL is independent and transparent in its operations and eligible to rate Banks and FIs, PSEs, Insurance, Corporate and Debt Instruments. The WCRCL team is formed with experienced professionals and specialists from different disciplines with the highest levels of ethics and integrity.

WASO Credit Rating Company (BD) Ltd. has executed an agreement for foreign partnership with Financial Intelligence Services Ltd (FISL). Through this partnership with FISL, WCRCL has created bondage with the global resources hub, thus being able to provide the best judged opinion through rating services to the nation.

Financial Intelligence Services Ltd. (FISL) is a Hong Kong based rating wing of World Vest Base (WVB), USA. FISL also operates as a holding company with offices in 16 countries. Since its inception in 1985 in Chicago, USA, World Vest Base (WVB) has become the world’s leading global provider of financial fundamentals serving the research and analytic needs of thousands of top companies in the financial services, media and corporate markets. The WVB global database is the financial industry’s premier source of detailed and transparent financial statement data on public companies.

The database universe spans over 50,000 public companies encompassing 130 countries from Asia, Africa, Australia, Europe, Latin America and North America. Additionally, WVB provides databases with Insider & Major Shareholders Transactions, specialized End-of-Day pricing for emerging markets, worldwide credit risk and business risk scoring.

1.2 WCRCL Vision

To uphold the national image in line with global risk management practices through unbiased, reliable and independent rating opinion for better financial management in the corporate and financial sector of the country.

1.3 WCRCL Mission

1. To provide their clients with complete, accurate, detailed and transparent credit rating opinion, in order to enable them to make sound investment and lending decisions.
2. To promote data transparency, encourage corporate transparency and ensure corporate governance.
3. To provide global risk analysis tools required to make sound decisions in lending and investment.
4. To create awareness on global risk management practices in the field of credit risk management on a national level.

1.4 WCRCL Values



Transparency in Disclosure and Rating Process:

WCRCL methodology for assigning credit assessments are rigorous, systematic, and subject to validation based on historical experience. To ensure proper assessment, WCRCL continuously develops its systematic rating methodology.



Confidentiality of Information:

WCRCL maintains absolute confidentiality of information according to the materiality level of information provided by the clients.



Integrity:

A well-structured code of conduct in line with the code of conduct guidelines of SEC and IOSCO ensures the highest level of integrity of overall rating process and operations at WCRCL.



Teamwork in Assignment:

WCRCL Modus Operandi patrons" excellent teamwork efforts in each and every assignment.



Professional Dynamism:

A sound coordination between experience and qualification has brought authentic professional dynamism in each level of WCRCL organ.

1.5 WCRCL Services

WASO Credit Rating Company provides many services beside the generic service as a credit rating agency. Some services are

- ✓ **WCRCL RATINGS**
- ✓ **WCRCL ADVISORY**
- ✓ **WCRCL RESEARCH**

1.5.1 WCRCL Ratings:

WCRCL provides different sort of rating services. Some of them are;

- ✓ **Corporate Ratings**
- ✓ **Bank & FI Ratings**
- ✓ **Structured Finance Ratings**
- ✓ **Insurance Ratings**
- ✓ **State Owned Entities Ratings**
- ✓ **Micro Finance Institution Ratings**
- ✓ **Small & Medium Enterprise Ratings**
- ✓ **Other Organization/s Rating.**

1.5.2 WCRCL Advisory:

WCRCL provides different sort of advisory services. Some of them are;

- ✓ IRB Implementation
- ✓ Enterprise Risk Management

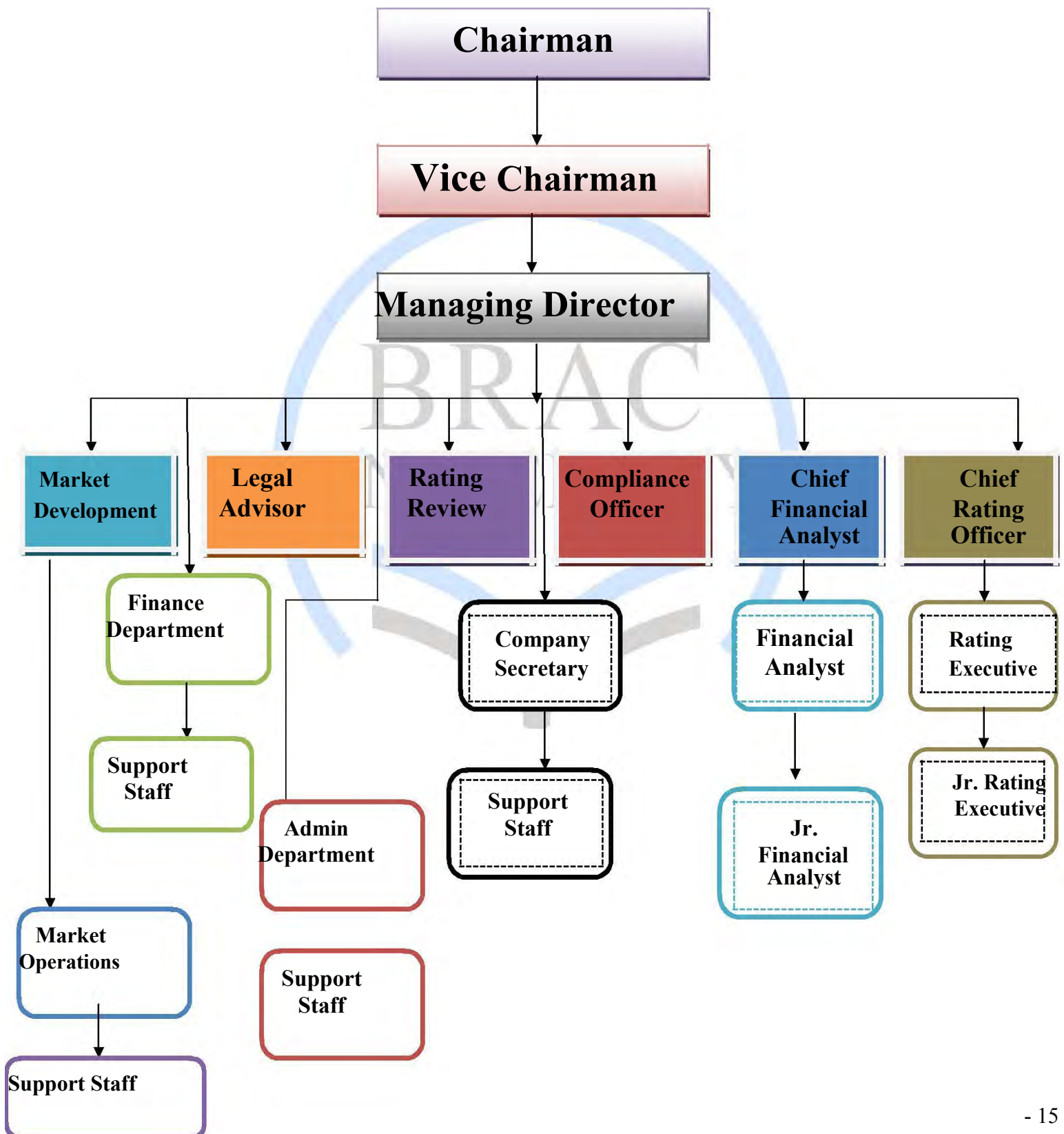
1.5.3 WCRCL Research:

WCRCL provides different sort of research related services. Some of them are;

- ✓ Economic Research
- ✓ Industry Research
- ✓ Specific Research



1.5.6 WASO Operational Network Organogram





Chapter 2

Job Responsibilities

2.1 Description of the Job:

Although I joined WASO Credit Rating Company as an intern of the Market Operation team, I was never treated as one rather I was treated as a core member of the Market operation team.

Even I was given some visiting cards as „Executive“ for visiting different banks and clients. My job was both desk and field based during the tenure. It was full of excitement and challenges.

I was actually assigned in the Corporate Marketing team but my overall job reach was much wider than the appointment letter or first day briefing. I had to develop content for the website, given numerous data entry, worked with the analyst team, E-Mail marketing, Telephone Marketing, Field visit to banks and clients in Dhaka, Thakurgaon and Bogra.

2.2 Specific Responsibilities of the Job:

2.2.1 Develop Contents for Websites:

When I firstly joined WASO Credit Rating Company, it was struggling a bit with its website. My first task was to communicate with all concerned authorities and completing website comprising all the information available. For this I had to communicate several times with the assigned web developer, financial analysts of WASO, Corporate Manager and Admin Executives etc. By compiling all the data finally WCRCL could come out with a great information based website.

2.2.2 Database Entry:

After the website task which was completed within a couple of weeks I was given all the previous contract papers to compile necessary client information. I had almost 150 contracts to complete and accomplished the task very efficiently and still now that database is maintained at WCRCL.

2.2.3 Working with Analyst Team:

After those small yet important jobs, I got the opportunity to work with the analyst team for a week. I learned all the procedures which they do follow before sending a report to the rating committee before it assigns a grade.

2.2.4 E-Mail Marketing

I was given the responsibility to send Credit Rating proposals to all the listed companies and all the important Chief Executive Officers, Managing Directors, Chief Financial Officers, Finance Directors who have completed Cost & Management Accounting from ICMAB.

2.2.5 Telephone Marketing

After the e-mail marketing I was given the office telephone to call up and try to fix appointments with possible clients whom the e-mails were sent.

2.2.6 Field Visit to Banks and Clients:

After those entire desk based work of a month and a half, I got the opportunity to visit several branches of different banks in Dhaka. I covered a few locations in Uttara, Karwan Bazar, Motijheel, Old Dhaka, Mirpur etc. I also had to go to meet clients from list obtained from banks. Due to an emergency I had to go to Thakurgaon and Bogra as well for Bank and Client Visit.

2.3 Critical Observations & Recommendations

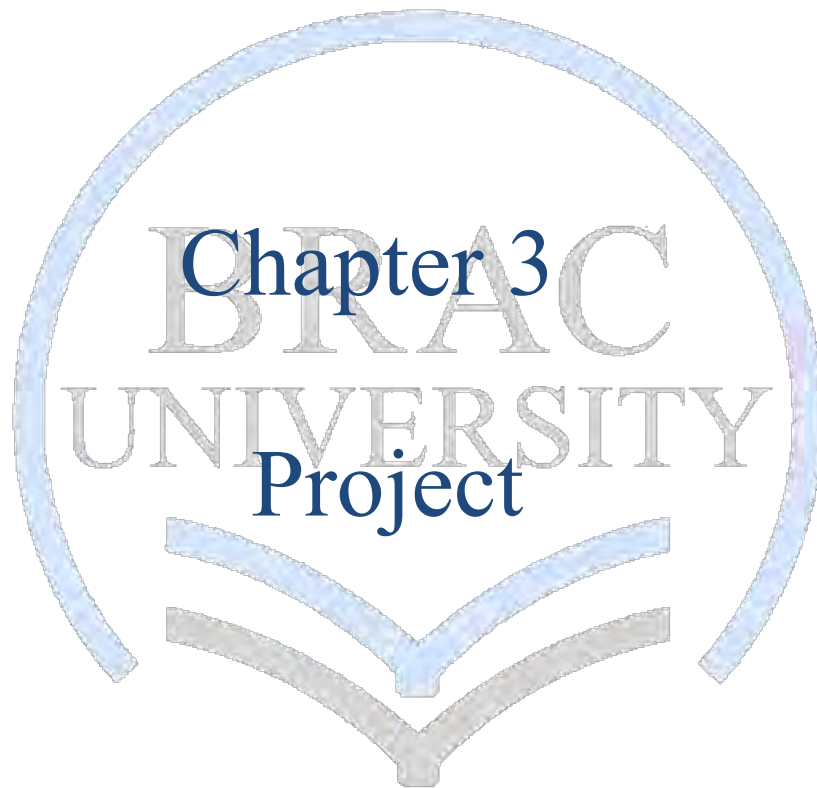
Throughout my WCRCL journey I have had lots of difficulties to perform assigned duties and thus the following points are on my mind as recommendation for WCRCL for improving the overall job satisfaction of the employees.

2.3.1 Observations

- ✓ The employees of market development are very poorly paid and thus sometimes they lose motivation to achieve targets.
- ✓ No commission is being given on sales, so not a single employee runs an extra mile for a better growth.
- ✓ There is no place to discuss privacy issues for the marketing team some confidential information are leaked through unknown people within the company.
- ✓ There is no particular training module for a new employee or interns. So it takes a lot of time for training them.

2.3.2 Recommendations

- ✓ Increase salaries of the Staffs.
- ✓ Introduce sales commissions.
- ✓ Construct proper training module.
- ✓ Publish marketing materials for disguised branding.
- ✓ Organize motivational workshops.



3.1 Background of the Report

This report is prepared as a requirement for the completion of Master of Business Administration (MBA) program of BRAC Business School, BRAC University. This report is being prepared under careful supervision of Mr Hasan Maksud Chawdhury. The title of the report is “Procedure of Credit Rating - A Study on WASO Credit Rating Company (BD) Limited”.

Credit rating evaluates the credit worthiness of a debtor, especially an individual, a business or a country. It is an evaluation made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. The history of credit rating is almost 100 years old, which started with three companies Standard & Poor's, Moody's Investor Service, and Fitch Ratings. Credit rating in Bangladesh is relatively new with the Credit Rating Companies Rules got approved in 1996. Since then up to very recently (2011) there have been two major players. However, in 2011 Bangladesh Securities & Exchange Commission (BSEC) awarded license to two new companies. Additionally, in the subsequent year (2012) BSEC awarded 4 (four) more companies with the license to rate companies. So there are eight rating companies currently operating in Bangladesh. This has led to tighter competition among the players and declining rating fees. By the definition of credit rating, it should reflect the credit worthiness of the debtor, taking into consideration both the capacity and the willingness of the borrower. However, the effectiveness of the ratings within Bangladesh has been questioned.

This report will focus on the procedure of credit rating process of WASO Credit Rating Company Limited (WASO) in light of the guidelines of Bangladesh Bank and BSEC.

3.2 Objectives of the Study:

The main objective of this report is to fulfill the partial requirement of MBA program as an Internship report. Moreover, the objective of this report is going to serve three particular objectives, which are-

Describe Overview of Credit Rating Agencies in Bangladesh , Laws and Guidelines Regulating CRAs, WASO Rating Services, Rating Process, Required Documents for Ratings, Rating Scales and Definitions, Rating Framework, Importance of Credit Rating in Bangladesh, Limitations and Opportunities of WCRCL.

3.3 Methodology:

Data were being obtained from visiting different websites, books, journal, brochures etc and through working on official documents.

3.4 Limitations of the study

The report has some limitations, which are as following:

- ✓ Some information of the rating companies are extremely confidential thus many data could not be provided.
- ✓ No survey of effectiveness could be done.

3.5 Literature Review

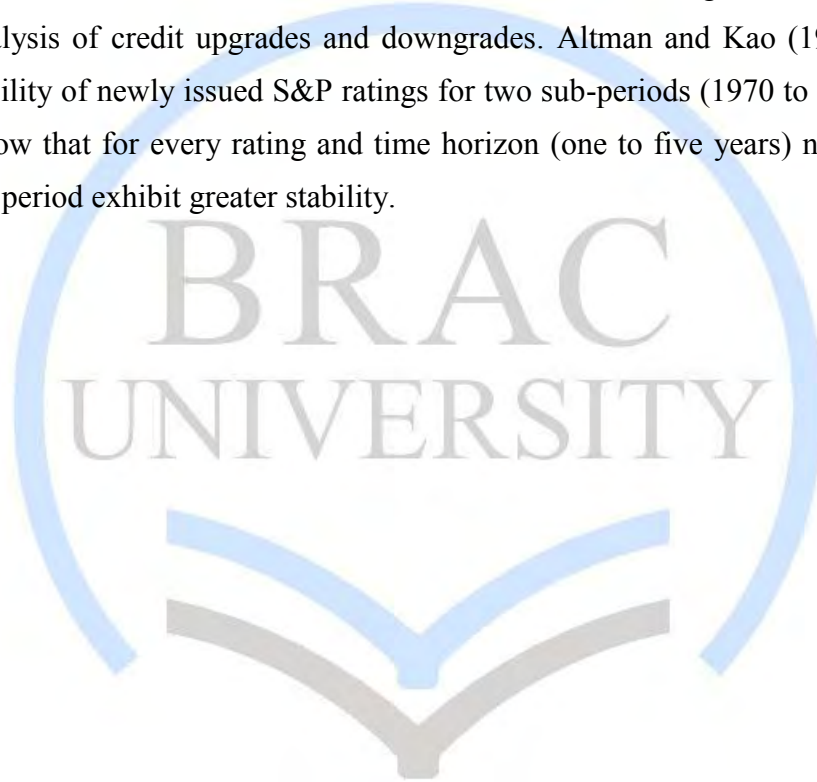
Credit ratings aim to measure the creditworthiness of an entity, e.g. a corporation, or issue. They represent an opinion of a rating agency that evaluates the fundamental credit strength of an issuer and his ability to fully and punctually meet his debt obligations (Gonzalez, et al., 2004). Credit ratings are produced by professional rating agencies and in most of the countries it requires establishment of regulatory guidelines that permits and monitors the credit rating agencies. For example, in the USA, agencies must be approved as Nationally Recognized Statistical Rating Organizations (NRSRO) by the Securities and Exchange Commission (SEC) (Hill, 2004). In Bangladesh, credit rating agencies has to be approved by Bangladesh Securities and Exchange Commission (BSEC). Subsequently, for the CRAs to rate issues and issuers under the BASEL II guideline has to be approved by Bangladesh Bank (BB) as External Credit Assessment Institution (ECAI). In an economic sense, rating agencies function as financial intermediaries, the existence of which would not be justifiable under the hypothesis of efficient markets (Ramakrishnan & Thakor, 1984).

Ratings are placed on a discrete ordinal scale, where for example under the S&P scale an AAA (the so called 'triple A') rating is the highest credit rating assigned to issuers with the highest credit-quality and a D rating is the lowest rating assigned to bonds or firms in default. Moreover, CRAs stress that ratings are just opinions. These opinions, which stem from fundamental credit analysis, are used to classify credit risk. In keeping with their status as opinions, ratings are determined by a rating committee. As such, ratings do not constitute a recommendation to buy, sell or hold a particular security, and do not address the suitability of an investment for a particular investor (Hilderman, 1999).

Empirical studies on credit ratings can be roughly divided into three lines of research (Blume, Lim, & MacKinlay, 1998). The first two measure the information content of credit ratings in different ways. The first line analyses whether credit ratings measure what they claim to measure, i.e. an issuer's creditworthiness. More specifically, the relationship of ratings and corporate default is measured (Zhou, 2001). The second line measures the information content of ratings on capital markets. Here, capital market reactions around rating changes are analyzed to

see if ratings contain additional information (Gonzalez, et al., 2004). The third line of research investigates the determinants of credit ratings. Here ratings as independent variables are modeled on a number of financial data (Ederington, 1985), corporate governance characteristics (Bhojraj & Sengupta, 2003), and macroeconomic factors (Amato & Furfine, 2004). These studies show that ratings can be replicated to a certain degree solely using publicly available data. Further studies in this context analyze the stability of credit ratings with respect to their 'through-the-cycle' approach and the determining factors of rating changes and transition probabilities.

Several academic studies have examined the behavior of credit ratings over time, for instance through the analysis of credit upgrades and downgrades. Altman and Kao (1992) for example analyze the stability of newly issued S&P ratings for two sub-periods (1970 to 1979 and 1980 to 1988). They show that for every rating and time horizon (one to five years) newly-rated issues from the earlier period exhibit greater stability.



3.6 Credit Rating in Bangladesh

Credit rating industry in Bangladesh started its journey with the mandatory requirement of having credit rating for all public debt type instruments, right offer issues and shares issued at a premium before the same were offered to the public. In the year of 2002, Credit Rating Information & Service Limited (CRISL) started its operation as the first registered credit rating agency of Bangladesh. The second rating agency, Credit Rating Agency of Bangladesh Limited (CRAB) went to operation on 2004.

Credit Risk Grading Manual of Bangladesh Bank was circulated by Bangladesh Bank vide BRPD Circular No. 18 dated December 11, 2005 on Implementation of Credit Risk Grading Manual which is primarily in use for assessing the credit risk grading before a bank lend to its borrowing clients. By that time CRISL rating reports were appearing to be very useful for the users; specially CRISL rating report on the then Al Baraka Bank convinced the Bangladesh Bank of the need of credit rating and it took the initiative to make mandatory for all banks to have credit rating before it goes for public offering. The banking regulator further decided to make it mandatory for all banks to submit credit rating reports to the regulator within six months after the finalization of accounts.

Following the example of the central bank, the insurance regulator also came up with the requirement to make rating mandatory for all general insurance companies every year and for the life insurance companies bi-annually. The Dhaka Stock Exchange, while issuing the direct listing regulations, made the credit rating mandatory before a company apply for direct listing. The above regulations created an enabling environment for credit rating in the country's capital and financial markets. The concept of client rating by the rating agencies to support capital adequacy of the banks came up in view of the need for implementation of Basel II capital adequacy framework by Bangladesh Bank.

Bangladesh Security and Exchange Commission (BSEC) allow only a mere 2% default rate of the credit rating agencies. There are certain penalties in case default rate of more than 2% including cancellation of license of the defaulter rating agency as the highest penalty by BSEC.

Other credit rating companies namely National Credit Ratings Ltd and Emerging Credit Rating Ltd started their journey on 2010. Lastly, new four credit rating companies have come to operation on 2012, which are ARGUS Credit Rating Services Ltd., Alpha Credit Rating Limited, The Bangladesh Rating Agency Limited and WASO Credit Rating Company (BD) Limited. A list of credit rating companies operating in Bangladesh can be found in the following table.

According to Association of Credit Rating Agencies of Asia, Bangladesh has the highest number of credit rating companies. India, one of the largest economies of Asia has only two credit rating companies. On the other hand China, another largest economy is continuing its economic growth with a single credit rating company.

Below are the Names and Dates of issuance of Registration Certificates of CRAs in Bangladesh

Table: List of CRAs

Name of Company	Date of Issuance of Registration Certificate
Credit Rating Information and Services Ltd (CRISL)	21 August, 2002
Credit Rating Agency of Bangladesh Ltd (CRAB)	24 October, 2004
National Credit Rating Ltd	22 June, 2010
Emerging Credit Rating Ltd	22 June, 2010
ARGUS Credit Rating Services Ltd.	21 July, 2011
WASO Credit Rating Company (BD) Limited	15 February, 2012
Alpha Credit Rating Limited	20 February, 2012
The Bangladesh Rating Agency Limited	7 March, 2012

3.7 Overview of Credit Rating Agencies in Bangladesh

3.7.1 CRISL

Credit Rating Information and Services Limited is a company that started its journey to implement a Concept in Bangladesh – “Credit Rating”. Before CRISL, “Credit Rating” was text paper words for the teachers and students of Bangladesh. The voyage of how CRISL conceptualized this idea in 1995 and implemented it in Bangladesh and finally achieved its operating license in 2002 – after almost eight years of struggle – has a long, interesting, exciting and also painful history. CRISL is now the national flagship company representing the profession at home and abroad.

3.7.2 CRAB

Credit Rating Agency of Bangladesh Ltd. (CRAB) was incorporated as a public limited company under the Registrar of Joint Stock Companies in August 2003 and received its certificate for commencement of business in November 2003. It has been granted license by the Securities & Exchange Commission (SEC) of Bangladesh for operating as a credit rating company in February 2004. The formal launching of the company was held on 5 April 2004.

3.7.3 NCRL

National Credit Ratings Limited (NCR) is a full service rating company that offers a wide range of services. Incorporated as a public company, NCR started its business with a paid up capital of TK 10.00 million. The Securities and Exchange Commission granted the license to NCR in June 2010 under the Credit Rating Companies Rules 1996. The Company is recognized by the Bangladesh Bank as an External Credit Assessment Institution (ECAI).

3.7.4 ECRL

The ISLQ International Star for Leadership in Quality Award acknowledges the strong commitment to quality and excellence. Mr. Ahsan Parvez (Managing Director & CEO) & Mr. Noor-e-Khoda Abdul Mobin (Deputy Managing Director & COO) received the award in the Concorde La Fayette Hotel in Paris on June 25, 2012, from the president of B.I.D., Mr. Jose E. Prieto. Emerging Credit Rating Ltd. is made up of a team oriented towards the continuous improvement of processes, striving for an important role in the leadership of the business world.

3.7.5 ACRSL

ARGUS Credit Rating Services Ltd. (ACRSL) is the next-generation Credit Rating Agency of Bangladesh. Founded as a joint-venture between global experts in credit & equity research and local sponsors with strong capital markets track record, ACRSL received its license from the BSEC in 2011. ACRSL is partnered with DP Information Group (“DP”), the premier credit rating agency of Singapore for over 30 years. Having pioneered credit rating in Singapore, DP has played an influential role in the development of the credit rating sector in China, Indonesia, and Philippines. Further, DP’s parent company, the UK based Experian Group is one of the world’s top credit reference agencies.

3.7.6 WCRCL

WASO Credit Rating Company (BD) Ltd. (“WCRCL”) was incorporated as a public limited company under the Office of the Registrar of Joint Stock Companies and Firms in July of 2009. With the license from the Bangladesh Securities & Exchange Commission (BSEC) of Bangladesh to operate as a credit rating company, WCRCL has officially started its journey on 15th February, 2012. It has also been recognized as an External Credit Assessment Institution (ECAI) by Central Bank of Bangladesh in October of 2012.

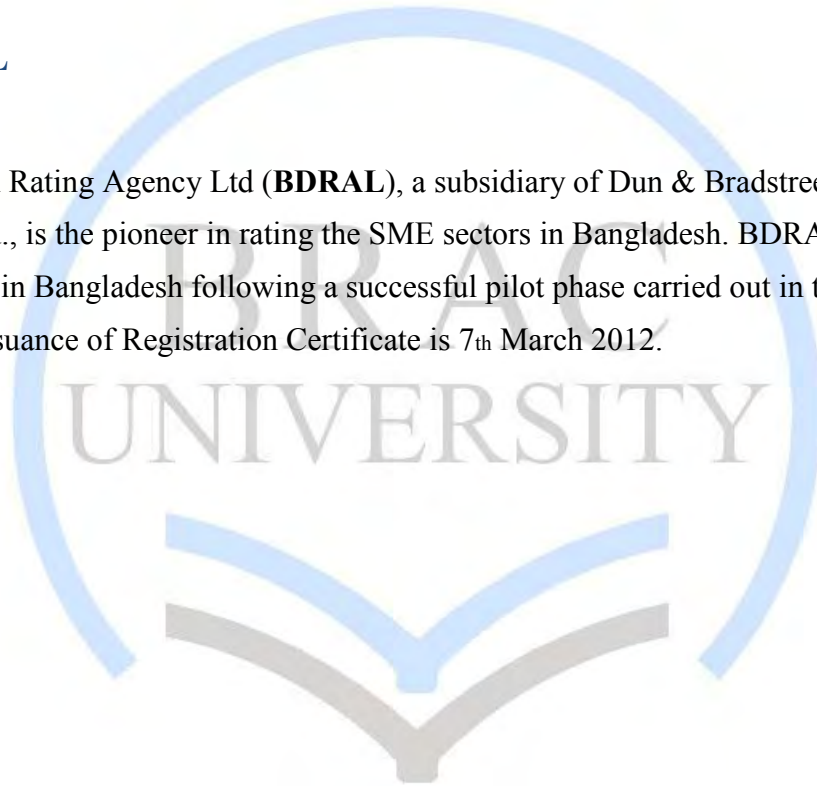
3.7.7 ALPHA

Alpha Rating was incorporated on the 24th of February 2011. a result of the initiative of a few distinguished and renowned professionals of Bangladesh and the with support and organizational assistance from SATCOM IT Ltd., Axis Resources Ltd., Equity Care

Bangladesh Ltd., and TAN Equity and Investment Ltd. Date of Issuance of Registration Certificate is 20th February 2012.

3.7.8 BDRAL

The Bangladesh Rating Agency Ltd (**BDRAL**), a subsidiary of Dun & Bradstreet South Asia Middle East Ltd., is the pioneer in rating the SME sectors in Bangladesh. BDRAL has launched its SME ratings in Bangladesh following a successful pilot phase carried out in the year 2009. Date of Issuance of Registration Certificate is 7th March 2012.



3.8 Laws and Guidelines Regulating CRAs

Credit rating agencies (CRA) in Bangladesh has been guided by the “Credit Rating Companies Rules, 1996” enacted by Bangladesh Securities and Exchange Commission (BSEC) through notification of SEC/Section-7/117 on 24 June 1996. The basic snapshot of the law is provided below:

Requirement for Credit Rating: No issue of debt security, or public issue of shares (including rights share) at a premium, shall be made by an issuer unless the issue is rated

by a credit rating company and declaration about such rating is given in the offer document, prospectus or rights share offer document.

Eligibility for Registration: A company proposing to commence business as a credit rating company shall be eligible for registration under these rules if it fulfils or complies with the following conditions or requirements:

- It is incorporated as a public company under the Companies Act, 1994
- It must have a paid-up capital of at least Tk. 5.00 million
- It has professional competence, financial soundness and has entered into a joint venture or technical collaboration arrangement with a reputed credit rating company,
- It has at least two professional staff having professional or post-graduation degree in finance, accountancy, business, economics and/or law and experience for at least two years in credit rating or investment advisory activities,

Cancellation or Suspension of Registration: Where BSEC is of the opinion that a credit rating company has contravened any provision or has otherwise failed to comply with

any requirement of the Ordinance or any rule or direction made or given there under the Commission may, if it considers necessary in the public interest, so to do by order in writing, cancel or suspend the registration of the credit rating company. Provided that no such order shall be made except after giving the credit rating company an opportunity of being heard.

Submission of ratings report to the Commission: Every credit rating company shall submit to BSEC a report giving such details of credit rating for a quarter of the year in such form as may be required by the Commission by order in writing, within fifteen days of the close of the quarter.

3.9 WASO Rating Services

1. Issuer/Entity Ratings:

For Corporate, Banks and Financial Institutions

2. Issue Specific Rating:

It can be in both form short term and long term as following

3. Long Term Ratings:

For Bonds, Debentures, Structured Products, For Tier I and Tier II Capital of Banks, Mutual Fund Ratings

4. Short Term Ratings:

For Commercial Paper, CDs of Banks and Corporate

5. Bank Loan/Facility Ratings:

Bank Exposure rating under Basel II requirement for corporate, SME, MFIs and others

6. Claim Paying Ability Rating:

For General Insurance and Life Insurance Companies

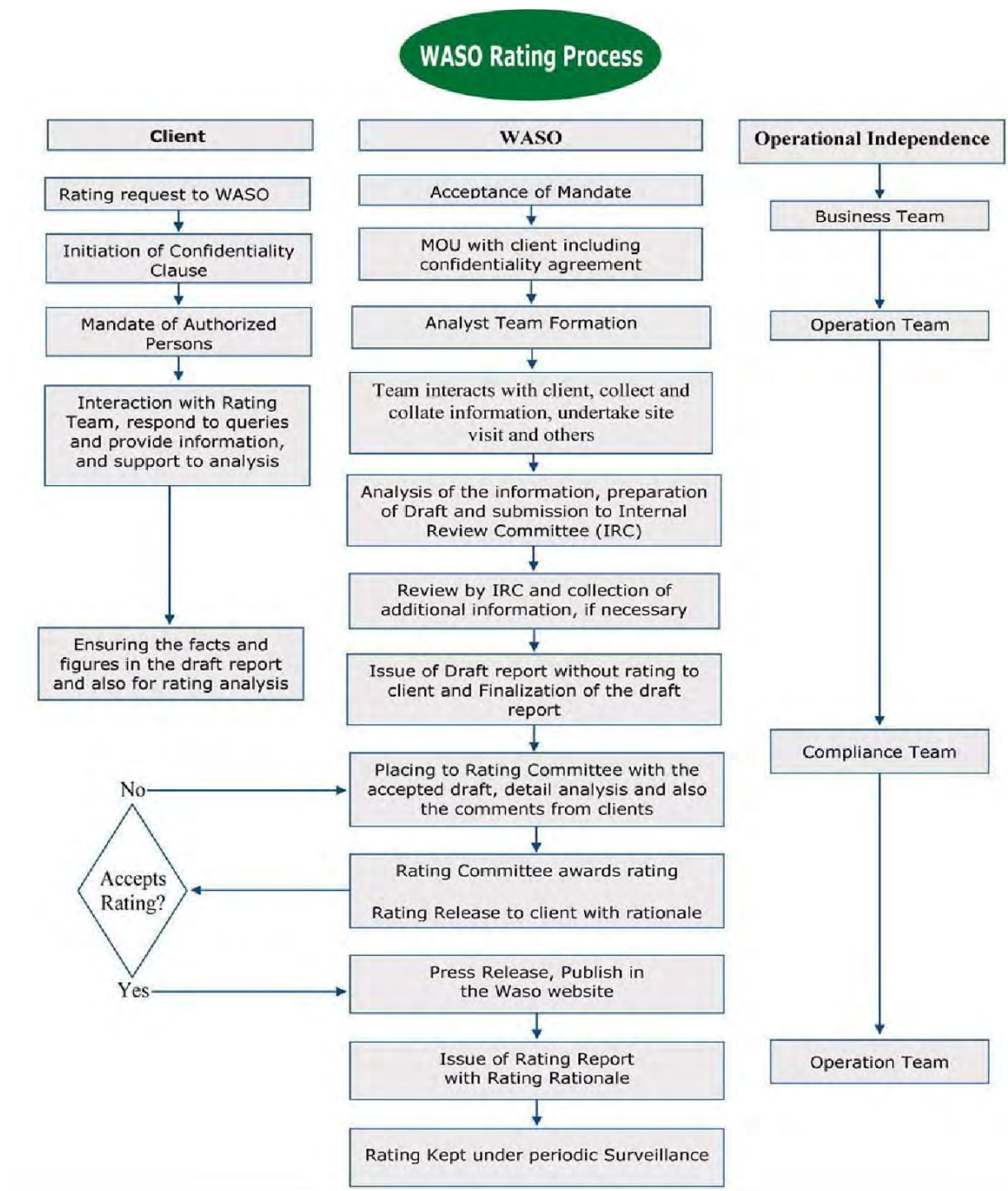
7. Due Diligence Service:

For Project Finance, Corporate Restructuring

8. Accreditation Service:

For Valuation Agencies,

3.10 WASO Rating Process



The above flowchart describes that after agreement is signed for Credit Rating working between WASO Credit Rating Company (BD) Ltd. and a client, a specific team is assigned for the following works regarding assessment and giving the draft report:

- ✓ Obtaining information for the client as per requirement list of WASO Credit Rating Company (BD) Ltd.
- ✓ Introductory Plant/office visits and holding meeting with top management.
- ✓ Verification Process: The assigned team verifies all the documents, information, statement supplied the client. The quantitative and qualitative aspects are also verified by this team. The team also visits the client office, factory premises and operational places and sits with the management with their observations for clarifications and their comments on the draft report.
- ✓ Presentation of findings to draft Rating report: Preparation of draft report from the findings.
- ✓ Submission of draft report to top internal management team for internal verification and checking
- ✓ On verification of process data, information and review with the client, the final draft report is submitted to the rating committee for approval and finalization.
- ✓ After that, the rating committee awards a grade; for example AA. Then the result is being conveyed with all the necessary documents to the client. If he accepts the grade then the report is published on websites and being sent to necessary and concerned institutions.
- ✓ If the client is unhappy, then they can appeal within 7 days with necessary documents. Then the case is considered for review and after repeating the process.

3.11 A Sample CONTRACT FOR DEED OF AGREEMENT

This Contract of Credit Rating is being made today, Day of of Christian era
Two thousand and Thirteen.

BETWEEN

WASO Credit Rating Company (BD) Ltd. (hereinafter referred as “WCRCL”) established in Bangladesh, duly licensed by the Securities and Exchange Commission under Credit Rating Companies Rules 1996 (license no. CR-06/2012 dated 15th February, 2012) and recognized by Bangladesh Bank as External Credit Assessment Institution (ECAI) now addressed at the Haque Chamber (Level – 5&6), 89/2, West Panthapath, Dhaka- 1215, Represented by **Abdul Wadud, FIEB, Managing Director** hereunder called the **First Party**.

AND

..... (hereinafter referred to as “.....”) a Private/Public/Proprietorship limited company and incorporated in Bangladesh on, and Registered Office: The agreement represented by, Managing Director hereinafter called the **Second Party**.

Whereas the **First Party**, a Rating Agency is duly requested by the **Second party** to carry out **Entity Rating** service of the **Second Party**.

Whereas the **First Party** accepted the proposal under certain terms and conditions and specified in this deed of agreement. We do hereby affirm, pledge and agree to undertake and abide by stipulations, terms and covenants of this deed of agreement as stated hereinafter.

NOW THEREFORE, IN CONSIDERATION OF THE PREMISES OF THE MUTUAL COVENANTS CONTAINED HEREIN THE BOTH PARTIES HAVE UNDERSTOOD AND AGREED AS FOLLOWS:

1. That the **First Party** has agreed to undertake the rating assignment and this agreement will be treated as an initial rating agreement. The First Party will complete the assignment within Six

weeks from the date of providing all information required vide **First Party**'s primary questionnaire and its subsequent queries;

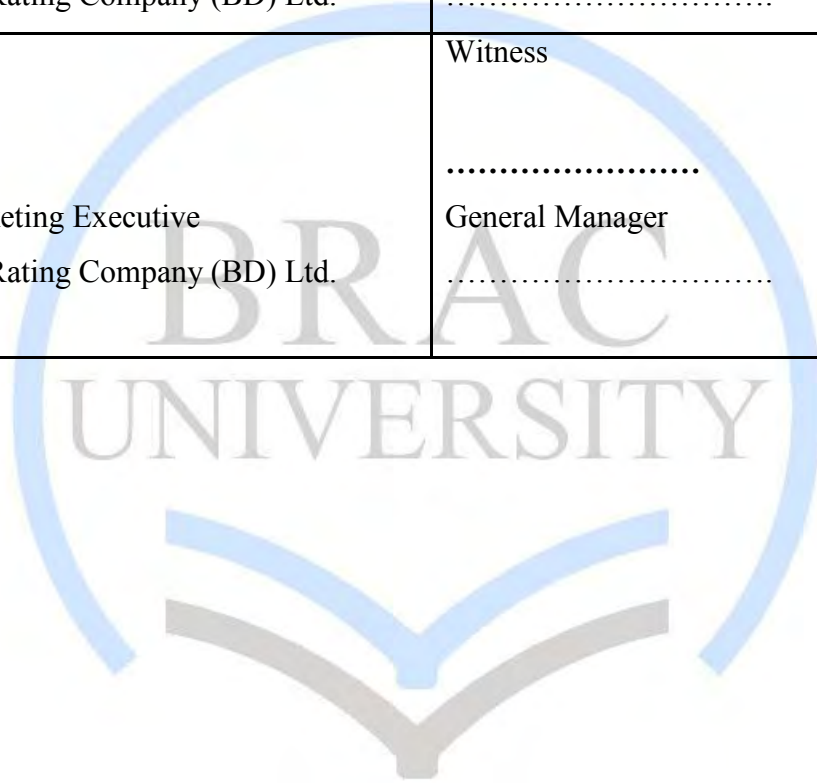
2. The **Second Party** has agreed to provide such data / information as required by the **First Party** while conducting rating and also its surveillance;
3. That the **Second Party** will authorize all concerned bank / creditors to provide information as required by the **First party** for its independent analysis.
4. That the **First Party** shall carry out the rating as per its standard methodology and Ethical code which are published and available at **First Party**'s website.
5. That the professional fees for the rating assignment has been agreed to be BDT/= (Tk. only), excluding all applicable Tax and VAT (Tax will paid by First Party and VAT will paid by Second Party). 50% of the above fee is payable with the signing of this agreement and the balance 50% is payable after submission of the draft report but before the declaration of rating. The surveillance fee for each year will be BDT./= (Tk. only), excluding applicable all Tax and VAT. The Payment procedure will be same as mentioned above.
6. For **Entity** rating, that the both parties have agreed to keep the rating under annual surveillance as per the requirement of the Securities and Exchange Commission (SEC) of Bangladesh guidelines at least for **next three years** after the initial rating and may be renewed further. During the surveillance period the **Second Party** needs the permission of the SEC if desire to terminate the contract with valid reasons and being heard from the **First Party, (Vide by Clause-“9-2-B” SEC-1996).**
6. That entire information and clarification furnished by the **Second Party** for facilitating the rating assignment shall become the property of the **First party** and it will keep such information and

document as “**Held under Trust**” subject to such information being used only for the **Second Party**’s financial, analysis and research;

7. That the **First Party** will depend on many secondary data in analysis such as Audit Report/ Valuation Report those are prepared by the certified professionals has been selected by the **Second Party**. As such the **First Party** does not guarantee of the completeness or of the accuracy of those information provided by the **Second Party** on which the rating is based on;
8. That the **First Party** shall forward a Draft of the Rating Report to the **Second Party** before finalizing of the rating for a review of the factual mistake / information gap, if any, by the **Second Party**. The **Second Party** may provide more information with valid documents and suggest modification with factual data / information, if it considered necessary, before finalization of the report. However, the acceptance of such data / information lies with the **First Party**;
9. That **WCRCL** will provide a reasonable opportunity to the **Second Party** to make a representation within 72 hours of rating declaration as according to **WCRCL** rating appeal policy. However, once such reasonable opportunity has been provided by **WCRCL**, the decision of **WCRCL** in respect of rating award shall be final and fully binding upon **Second Party**.
10. That in the event of failure on the part on the **Second Party** to furnish such information, material and clarification as required by the **First Party** from time to time or to pay the fee as and when due, the **First Party** shall have the right to decline / withdraw the rating assigned and publish the same;
11. The contract shall be **valid upto four years** from the date of signing, which may be further extended through mutual consent of both the parties. The agreement may be terminated or revised through mutual understanding of the both the parties, (**Vide by Clause-“9-2-B” SEC-1996**).
12. The **Second Party** has confirmed that they have not entered into any contact with any other rating agency earlier for doing the same.

In witness whereof the parties set their respective hands hereunder on the date, month and year above first mentioned.

First Party Abdul Wadud, FIEB Managing Director WASO Credit Rating Company (BD) Ltd.	Second Party Managing Director
Witness Naimul Rashid Corporate Marketing Executive WASO Credit Rating Company (BD) Ltd.	Witness General Manager



3.12 Required Documents for Ratings

1. Memorandum and Article of Association with Form X or XII/ Company Details including -
 - ✓ Products/services
 - ✓ Date of Incorporation
 - ✓ Date of Starting Operation
 - ✓ Key Sponsors
 - ✓ Relation among the sponsor
 - ✓ Sponsors Details
2. Trade License
3. Documents from Board of Investment or Related Ministry
4. Human Resources Policy
5. **Financial statements:** Audited (preferable) or Unaudited (at least 3 years and Unaudited Account must be signed by Managing Director) with all footnotes
6. Minutes of the board of director meeting
7. List of Machinery – Name, Quantity, Origin
8. List of Supplier and Buyer Name
9. Sanction Letter (Latest+First) with repayment schedule
10. Description of Mortgaged Asset in a Bank with Valuation and registry Document
11. Copy of insurance

12. Other Related Document, If have Taken Loan from any other FIs.

13. Latest Tax and Vat Payment Related Document

14. Experience and Educational Qualification of Chairman, Managing Director, Director, Executive Director, General Manager, AGM, Head of accounts and Finance, Head of Factory and Head of Marketing

15. Recent Financial Statements of other Company (Sister Concern) within the Group

16. Bankers Confidentiality Report from Bank with seal & signature (mentioning the date) of the respective officer and Latest CIB Information from Bank

17. Others:



Particulars of existing litigation by/against the company, if any



WCRCCL may seek additional information if necessary for effective completion of the assignment

3.13 WASO Rating Scales and Definitions

Rating Symbol:

WASO credit rating is an opinion of credit quality of an individual obligation or of issuer's general creditworthiness. To express the opinion, WASO uses generic rating symbol to describe the status of the respective issue or issuer profile. Additionally, it also uses some auxiliary signal about credit risk through the use of Rating Outlook and Rating watch list designation.

Unless otherwise indicated within the definition, all rating systems are monitored through surveillance. Rating may also be withdrawn for various reasons. The Rating Committee is in full discretion to assign any rating.

Scope of Rating Definitions:

The definitions in this handbook are not intended to provide a detailed view of how ratings are determined. WASO publishes rating methodology for the respective sector and these are designed to describe the factors underpinning the WASO's rating opinion. We encourage reader to review the respective rating methodology.

General Credit Rating Symbol and Definitions:

Issuer Ratings:

Issuer Ratings are opinions of the abilities of entities to honor senior unsecured financial obligations and contracts. WASO expresses issuer ratings on its General short term and long term scales.

Issuer Rating: Long Term

WCRCL Rating Scale		
Long Term Rating Categories	Investment Grade	
	AAA	Issuer/Issue rated AAA are judged to be of the highest quality with minimal credit risk.
	AA1, AA2, AA3	Issuer/Issue rated AA are judged to be of very high quality and are subject to very low credit risk.
	A1, A2, A3	Issuer/Issue rated A are upper medium grade and are subject to low credit risk.
	BBB1, BBB2, BBB3	Issuer/Issue rated BBB are subject to medium credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
	Speculative Grade	
	BB1, BB2, BB3	Issuer/Issue rated BB are judged to have speculative elements and subject to substantial credit risk.
	B1, B2, B3	Issuer/Issue rated B are considered speculative and are subject to high credit risk.
	Risky Grade	
	CCC1, CCC2, CCC3	Issuer/Issue rated CCC are judged to be of poor standing and are subject to very high credit risk.
	CC1, CC2, CC3	Issuer/Issue rated CC are highly speculative and are likely or very near in default, with some prospect of recovery of principal and interest.
	C	Issuer/Issue rated C are the lowest rated class of bonds and are typically in default with little prospect of recovery of principal and interest.
	Default Grade	
	D	Indicates that the issuer/Issue is in default, is technically or actually in bankruptcy.

Issuer Rating: Short Term

Short Term Rating Categories	P1	Issuer/Issue rated "Prime – 1" have a superior ability to repay short term debt obligations. They are most likely to have the capacity to meet their obligations over the coming 12 months through internal resources without relying on external sources of committed financing.
	P2	Issuer/Issue rated "Prime – 2" Have a strong ability to repay short term debt obligations. They are likely to meet their obligations over the coming 12 months through internal resources but may rely on external sources of committed financing.
	P3	Issuer/Issue rated "Prime – 3" Have an acceptable ability to repay short term debt obligations. They are expected to rely on external sources of committed financing. Based on its evaluation of near term covenant compliance, WCRCCL believes that the issuer may require covenant relief in order to maintain orderly access to funding lines.
	P4	A short-term obligation rated 'Prime-4' is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
	P5	A short-term obligation rated 'Prime-5' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.
	P6	A short-term obligation rated 'Prime-6' is in payment default or jeopardized through bankruptcy petition of similar action.

Short Term vs. Long Term Ratings

	Long-Term	Short-Term
Investment-Grade	<p> <u>Aaa</u> Aa1 Aa2 Aa3 </p> <p> A1 A2 A3 </p> <p> Bbb1 Bbb2 Bbb3 </p>	<p>P-1</p> <p>P-2</p> <p>P-3</p>
Speculative-Grade	<p> Bb1 Bb2 Bb3 </p> <p> B1 B2 B3 </p> <p> Ccc1 Ccc2 Ccc3 </p> <p> Cc1 Cc2 Cc3 </p> <p>C</p>	<p>Not Prime (i.e. NP)</p>

3.14 Other Rating Symbols



Provisional Ratings (P)

WASO will assign a provisional rating when the assignment of a final rating is subject to the fulfillment of contingencies but it is highly likely that the rating will become definitive after all documents are received or an obligation is issued in the market. A provisional rating is denoted by placing a (P) in front of the rating. Such ratings are typically assigned to transaction based structures like bond, debentures that require investor education before investment decision.

When a transaction uses a well established structure and transaction's structure and terms are not expected to change prior to sale in a manner that would affect the rating. A definitive rating may be assigned directly.



Withdrawn (WR).

When WASO no longer rates an obligation on which it previously maintained a rating.



Not Rated

NR is assigned to an unrated issuer or issue.

3.15 WASO Rating Framework

The factors considered by WASO Ratings are divided into six categories:

I. Promoters

1. Industry house
2. Group companies (market price)
3. Group companies (EPS)
4. Existing company (market price)
5. Group companies(EPS)
6. Auditors qualifications
7. Experience
8. Qualifications
9. AGE

II. Project

1. Product technology
2. Collaboration
3. Gestation
4. Location
5. Utilities
6. Labor
7. Cost of project
8. Cost of finance
9. Institutional appraisal
10. Other similar project

III. Prospects

1. Consumer
2. Present market size
3. Future market size
4. Competitors
5. Marketing arrangements
6. Technology obsolescence
7. Future projects

IV. Government Policy

1. Price control/subsidy import
2. Taxation Government attitude
3. Import (OGL, etc.)
4. Government Attitude

V. Security Characteristics

1. CCI consent
2. Secured/unsecured
3. Interest
4. Capital appreciation
5. Dividend
6. Premium
7. Size of issue
8. Tax benefits
9. Liquidity

VI. Miscellaneous

WASO Ratings assigns a maximum of 100 points, distributed among the characteristics mentioned above. Since there are about 40 sub criteria, the total of 100 points is divided among the sub- criteria at about 2.5 points per sub criterion. As a result no sub criteria are given undue weight. Though all the criteria used for evaluation are spelt out, the way in which the criteria are weighted and combined to form a final score is not explicitly specified.



3.16 Importance of Credit Rating in Bangladesh

The motives act behind the entities' paying fees to secure a credit rating depends on the surrounding regulatory environment and form of financial market. There are several reasons of getting a rating. The reasons are different in different markets and economies. The motives of getting a rating in Bangladesh are not identical as USA or UK. As same, the motives of American entities are not same as those of European or Australian entities. However, there are some common reasons for which the entities all over the world are spending money to get rating from the rating agencies. The identical reasons are enumerated here within the context of Bangladesh:

To Build up Market Reputation

New companies that seek to build a reputation in the international financial markets demand credit ratings to increase the exposure of their brand name. This brand exposure is important when companies for example initiate foreign direct investments. An entity with a higher rating is considered as a reputable organization. Recently, Delta BRAC Housing (DBH) has been awarded as an "AAA" rated company of the country, which excels the company's reputation that was reflected through the share price the company at DSE and CSE.

For Lower Cost of Funding

A less known company can lower their cost of borrowing if they obtain a higher investment grade rating. Banks or financial institutions consider rating as an indication of an entity's performance measurement yardstick. Entities with a higher rating are sanctioned loan at a lower interest rate whereas a lower graded entity is charged at a higher interest rate. So, it is going to be a common practice of the country to require an entity to be rated itself before applying for a loan to the banks or financial institutions.

Better Market Access

Any company that wishes to enter capital markets and issue debt in capital market is obliged to obtain a credit rating. Rating conveys the entity's ability and willingness to the market participants regarding repayment of its borrowed money or equity capital. In Bangladesh, as per Credit Rating Companies Rules 1996, all the companies are required to be rated before issuing its debt or floating its equity share at premium in the market.

To Comply with Regulatory Requirement

All over the world entities are rated for the regulatory bindings by the Securities and Exchange Commission and other authorities. In Bangladesh, BSEC, Bangladesh Bank and Department of Insurance are the three regulators who issued regulations, circulars and notifications for the entities for rating. Our banks and insurances are now rated once in a year for these requirements of the regulatory authorities.



3.17 Limitations of Credit Rating

The biggest limitation of rating agencies across the world has often been accused of not being able to predict future problems. In part, the problem lies in the rating process itself, which relies heavily on past numerical data and standard ratios with relatively lower usage of judgment and understanding of the underlying business or the country economics. Data does not always capture all aspects of the situation especially in the complex financial world of today. An excellent example of it is the meaningless over reliance on numbers in the poor country rating given to Bangladesh.

In general, rating is a very good estimate of the actual creditworthiness of the company; however, it is not able to predict extreme situation, which are unlikely to have been predicted by most investors in any cases, investors should realize that a credit rating is not sacrosanct and that one has to do one's own due diligence and investigation before investing in any instrument. They should use the rating as a reference and a base point for their own effort. One good way of doing this is examine the behavior of the stock price in case the stock is listed. As a collective, the market is far smarter at predicting problems than any credit rating agency. Witness the sharp erosion in stock price of companies much before their credit ratings were downgraded.

3.8 SWOT Analysis of WCRCL

3.8.1 Strengths of WCRCL

WCRCL has many points of strengths which they should capitalize on. Some of them are

- ✓ They have a great Board of Directors.
- ✓ Renowned Rating Committee members.
- ✓ Excellent analyst team comprising experienced and youth professionals.
- ✓ Great partnership with a few banks.
- ✓ It holds an image that, WCRCL provides nothing but fair grades.

3.18.2 Weaknesses of WCRCL

WCRCL has many points of weaknesses which they need to work on. Some of them are

- ✓ Very high turnover rate in marketing and administration department.
- ✓ Lack of proper facilities within the office for employees.
- ✓ Human Resource Department is highly inexperienced and often selects wrong individual for different positions.
- ✓ Often they are unable to clear employee dues timely which impact in decreasing performance of the concerned employees.

3.18.3 Opportunities of WCRCL

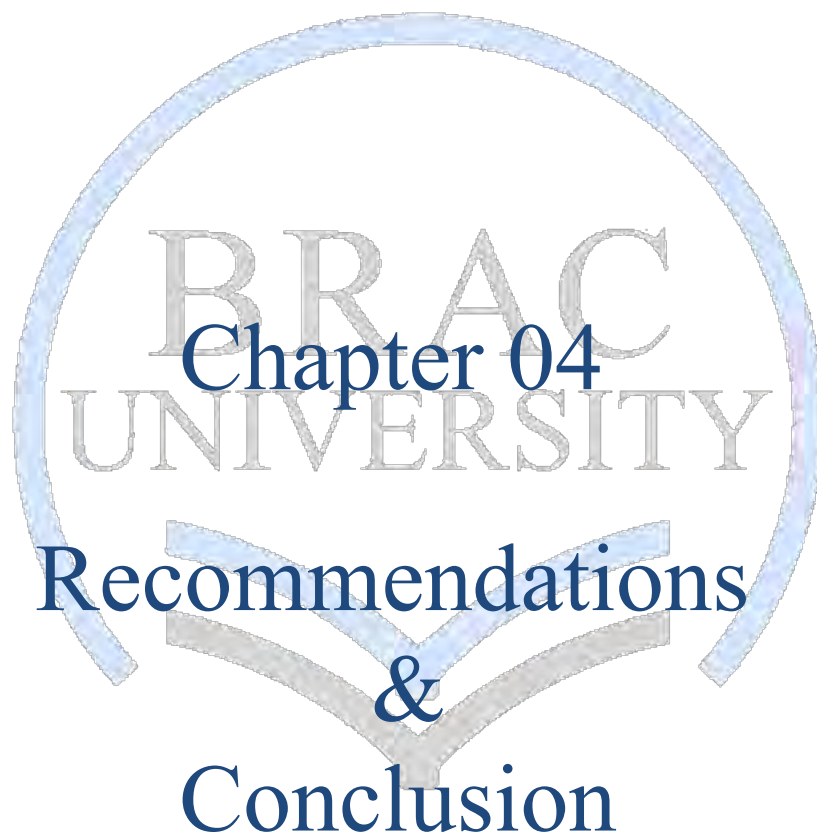
WCRCL has many scopes or opportunities in Bangladeshi Market, which they can capitalize on. Some of them are;

- ✓ Market is growing
- ✓ People are more aware of Credit Rating and the rate is increasing
- ✓ It is becoming a tool to differentiate a company from others in the similar sector.

3.18.4 Threats of WCRCL

WCRCL has a few threats they should be prepared for. Some of them are

- ✓ This sector has already turned into a red sea with 8 companies.
- ✓ Politically issued licenses can be terminated by regulators if government changes.



4.1 Recommendations:

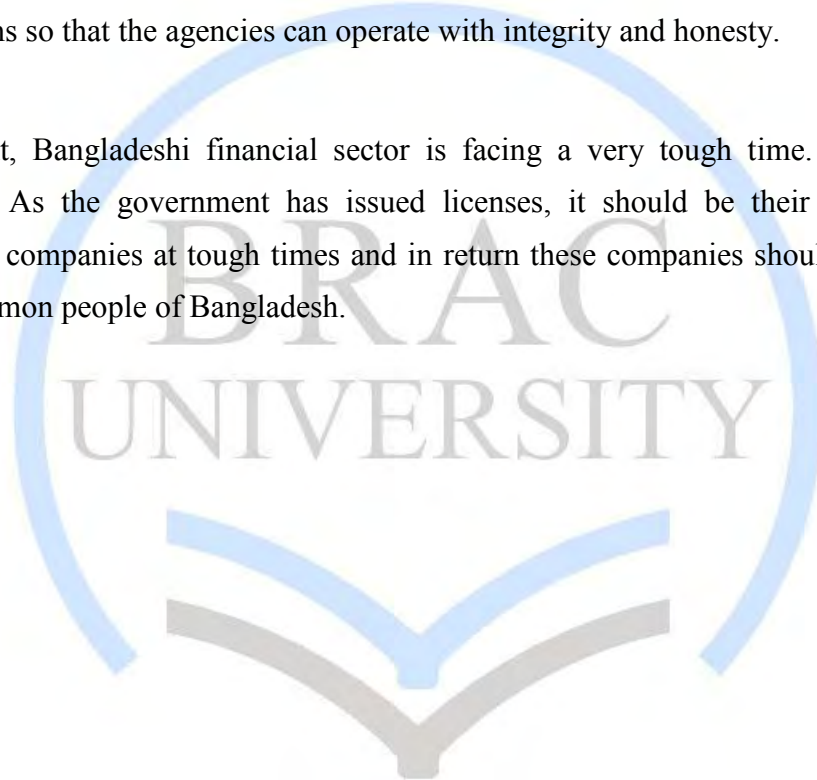
Based on above discussions, I would like to suggest the following to and for WASO Credit Rating Company (BD) Ltd.

- ✓ WCRCL should try and establish branches outside Dhaka to increase market size.
- ✓ WCRCL should increase employee training and other monetary facilities.
- ✓ WCRCL should pressurize to establish a separate body for monitoring credit rating agencies.
- ✓ Government should provide clear and written “Code of Conduct” for the credit rating agencies.
- ✓ WCRCL should try to reattempt to form an association to stop unfair pricing.
- ✓ WCRCL can buy out or form joint venture with any other CRA who is/are facing a hard time.

4.2 Conclusion:

Our beautiful Bangladesh is not a very good example on how a Credit Rating Agency/s should operate. We have now 8 agencies where two largest countries of the world India and China has 3 combined. This definitely has increased price war and reduced quality in consequence. Still among the new generation of Credit Rating Agencies, WASO Credit Rating Company (BD) Ltd is still fighting hard with dignity. Hopefully it would be able to convince the regulators to take necessary actions so that the agencies can operate with integrity and honesty.

At this moment, Bangladeshi financial sector is facing a very tough time. CRAs'' are also sufferers of it. As the government has issued licenses, it should be their responsibility to safeguard these companies at tough times and in return these companies should operate for the sake of the common people of Bangladesh.



4.3 References:

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